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TESTIMONY SUBMITTED TO THE COMMERCE COMMITTEE
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Connecticut Innovations

Raised Bill 1132

AN ACT CONCERNING THE EXPANSION OF BUSINESS TAX CREDITS

Good morning Senator Lebeau, Representative Perone, Senator Frantz, Representative Lavielle and Members of the Commerce Committee. My name is Claire Leonardi and I am the Chief Executive Officer of Connecticut Innovations.

Thank you for the opportunity to submit written testimony in OPPOSITION of Raised Bill 1132, AN ACT CONCERNING THE EXPANSION OF BUSINESS TAX CREDITS.

This bill seeks to make permanent the tax credit for angel investors and allows for venture capital companies to qualify for the same credit. It also requires DRS and DECD to report to the General Assembly concerning the expansion of the R & D tax credit and the angel investor tax credit.

The angel investor tax credit legislation has increased the number and amount of money individuals are willing to invest in start-up and early stage companies in our state. Angel investors are typically the first dollars into an opportunity and, as such, fill a very important role in the continuum of company development. This is the highest risk investment segment and one that is rarely filled by the private venture capital industry. Angel investors are very important partners for Connecticut Innovations.

In the first 8 months of this fiscal year, \$3.3 million in angel investor tax credits have been reserved against the \$6 million total available. The amount of angel investment and interest has grown every year and we expect this to continue. Next year however, in line with the legislation, the amount of tax credits available for investors will decline to \$3 million. If we have the same participation next year as this year, we will need to decline many legitimate applications. Adding a new source of demand to this pool of

credits would be detrimental to angel investors and the diversity of companies that receive funding.

Since inception in 2010, approximately 90 angel investors have made over 200 investments in over 50 companies. Today, the average investment is approximately \$120,000. Venture funds typically provide much larger rounds of capital. This change could theoretically result in only 6 companies receiving funding next year. The \$3 million available credits translate into \$12 million in total investments. A maximum of \$2 million is allowed per company. Therefore, the \$3 million in credits could end up supporting only 6 companies.

If the legislation is amended to allow venture capital companies to access this credit, without a corresponding increase in the level of credits available, it would be highly likely that credits would not be available for traditional angel investors. This would negatively impact the availability of investment capital for companies in their earliest and riskiest stages of development.

Thank you.